



STATE OF CALIFORNIA



GOVERNOR'S
**BUDGET
SUMMARY**

2004-05

Arnold Schwarzenegger, Governor
State of California

Total Inherited Debt

Accumulated Deficit Through 2002-03 ^{1/}	\$9.3 billion
Operating Deficit in 2003-04 ^{1/}	<u>3.0 billion</u>
Total Accumulated Deficit ^{1/}	\$12.3 billion
Effect of Prior Decisions After 2003-04	<u>9.8 billion</u>
Total Inherited Debt	\$22.1 billion

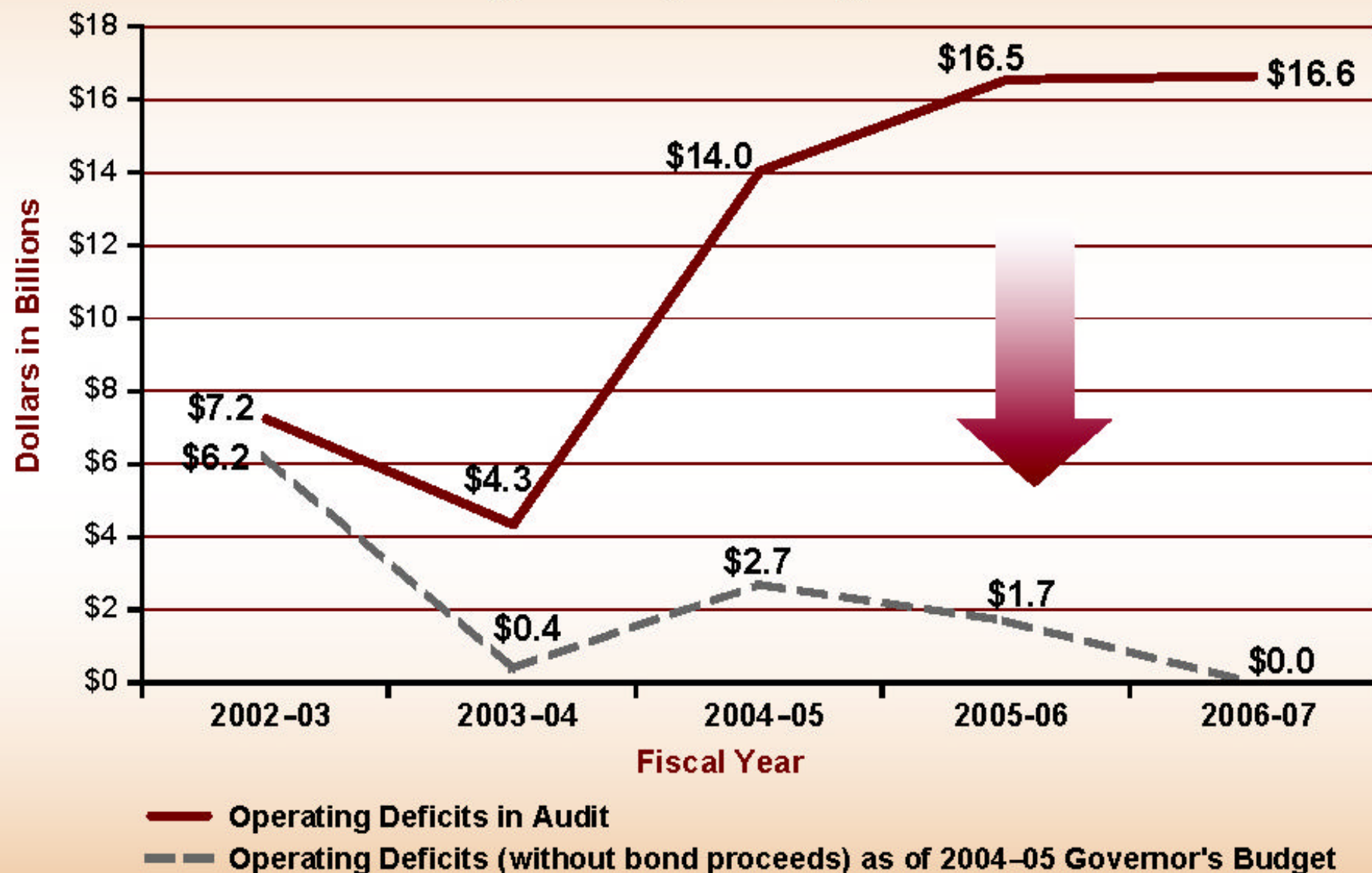
^{1/} In November, the audit projected accumulated deficit through 2002-03 at \$10.6 billion, operating deficit in 2003-04 at \$4.3 billion, and total accumulated deficit at \$14.9 billion. Since then, natural revenue growth and expenditure decreases have exceeded expectations.

California Recovery Plan

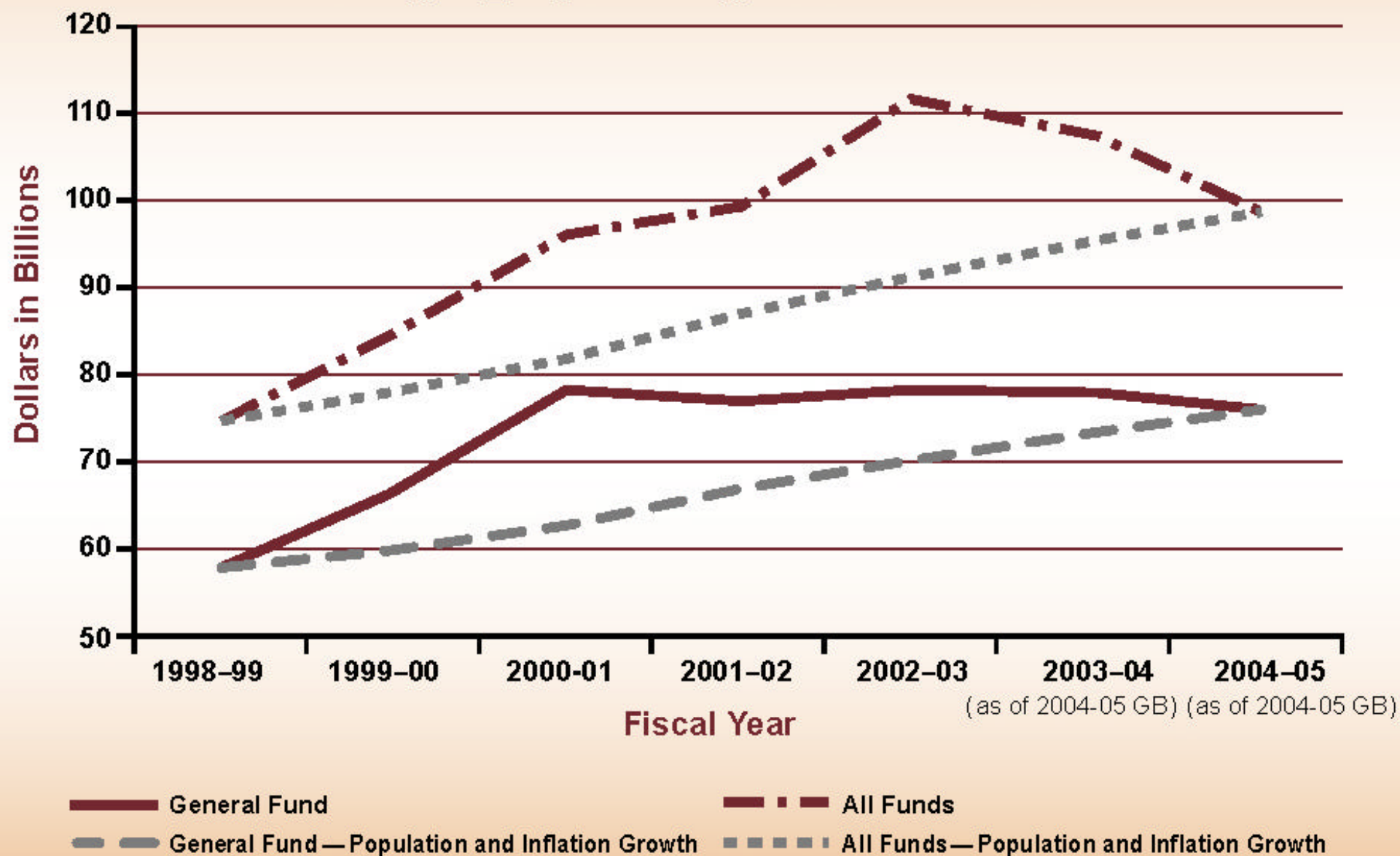
- Economic Recovery Bond Act.
- Constitutional amendment requiring balanced budgets, rainy-day fund, and new authority to control spending.
- A budget for 2004–05 that moves toward structural balance.
- Improving California's business and jobs climate.

STATE OF CALIFORNIA

Closing the Operating Deficit



Bringing Spending Back In Line



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General Fund Expenditures in Major Program Areas

	2003-04	2004-05	Difference
Legislative, Judicial, and Executive	\$2,528	\$2,616	\$88
State and Consumer Services	471	478	7
Business, Transportation, and Housing	518	375	-143
Resources	985	939	-46
Environmental Protection	91	70	-21
Health and Human Services	22,789	24,600	1,811
Youth and Adult Correctional	5,326	5,732	406
K-14 Education	31,418	33,152	1,734
Debt Service Savings (ERAF)	0	-1,256	-1,256
Higher Education	6,352	6,058	-294
Labor and Workforce Development	113	86	-27
Vehicle License Fee Backfill	2,703	4,062	1,359
STRS Contribution	510	1,057	547
General Government	1,212	1,105	-107
Use of Deficit Recovery Fund	3,012	-3,012	-6,024
Totals	\$78,028	\$76,062	-\$1,966

STATE OF CALIFORNIA

General Fund Solutions by Category

(Dollars in Thousands)

<u>Solution</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>Total</u>	<u>% of Total</u>
Spending Reductions	-\$161,784	-\$1,158,011	-\$4,618,885	-\$5,938,680	36.6%
Fund Shifts	0	-41,100	-1,043,579	-1,084,679	6.7%
Cost Avoidance:					
Suspend Prop 42 Transfer	0	0	-947,186	-947,186	5.8%
Re-Base Proposition 98 Growth	-517,836	-448,419	-1,910,287	-2,876,542	17.7%
Other	0	-609	-106,458	-107,067	0.7%
Economic Recovery Bonds	1,433,400	0	-3,012,000	-1,578,600	9.7%
Debt Service Savings	0	0	-1,256,000	-1,256,000	7.7%
Transfers/Other Revenue	0	-771,077	-475,561	-1,246,638	7.7%
Loans/Borrowing	0	-203,800	-45,000	-248,800	1.5%
Pension Reform Package	0	0	-949,747	-949,747	5.9%
Totals	<u>\$753,780</u>	<u>-\$2,623,016</u>	<u>-\$14,364,703</u>	<u>-\$16,233,939</u>	<u>100.0%</u>

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General Fund Solutions by Agency

(Dollars in Thousands)

<u>Agency</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>Total</u>	<u>% of Total</u>
Legislative, Judicial, Executive	\$0	\$0	-\$113,961	-\$113,961	0.7 %
State and Consumer Services	0	-18,550	-14,941	-33,491	0.2 %
Business, Transportation, and Housing	0	-886,800	-999,250	-1,886,050	11.6 %
Technology, Trade, and Commerce	0	-6,600	0	-6,600	0.0 %
Resources	-132,200	-8,700	-47,269	-188,169	1.2 %
Environmental Protection	0	0	-9,338	-9,338	0.1 %
Health and Human Services:					
Medi-Cal	-8,184	-229,994	-880,521	-1,118,699	6.9 %
Public Health	0	-4,444	-9,749	-14,193	0.1 %
Managed Risk Medical Insurance Board	-2,290	0	-32,109	-34,399	0.2 %
CalWorks	0	0	-787,360	-787,360	4.9 %
SSI/SSP	0	0	-134,675	-134,675	0.8 %
In-Home Supportive Services	0	-129,163	-126,539	-255,702	1.6 %
Developmental Services	-2,709	0	-155,368	-158,077	1.0 %
Mental Health	-1,408	-361	-37,562	-39,331	0.2 %
Other Health and Human Services	-14,993	-49,928	-536,161	-601,082	3.7 %
Youth and Adult Correctional	0	0	-438,017	-438,017	2.7 %
K-12 Education (Non Prop 98)	0	-609	0	-609	0.0 %
K-14 Education (Re-Base P98 Growth)	-517,836	-448,419	-2,003,996	-2,970,251	18.3 %
Local Government Contribution (ERAF)	0	0	-1,336,000	-1,336,000	8.2 %
Higher Education	0	-157,709	-728,782	-886,491	5.5 %
Labor Agency	0	-808	-808	-1,616	0.0 %
General Government	0	-680,931	-1,704,297	-2,385,228	14.7 %
Economic Recovery Bonds	1,433,400	0	-3,012,000	-1,578,600	9.7 %
Debt Service Savings (ERAF)	0	0	-1,256,000	-1,256,000	7.7 %
Totals	\$753,780	-\$2,623,016	-\$14,364,703	-\$16,233,939	100.0 %

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Selected Economic Data for 2003, 2004, and 2005

California

Civilian labor force (thousands)	17,618	17,818	18,139
(percent change)	1.2	1.1	1.8
Civilian employment (thousands)	16,440	16,629	16,954
(percent change)	1.2	1.2	2.0
Unemployment (thousands)	1,179	1,189	1,185
(percent change)	1.6	0.8	-0.3
Unemployment rate (percent)	6.7	6.7	6.5
Nonfarm wage and salary employment (thousands)	14,443	14,602	14,906
(percent change)	-0.2	1.1	2.1
Personal income (billions)	\$1,199.0	\$1,266.4	\$1,340.6
(percent change)	3.8	5.6	5.9
Housing units authorized (thousands)	194	192	198
(percent change)	15.8	-1.5	3.2
Corporate profits before taxes (billions)	\$98.2	\$110.0	\$118.5
(percent change)	4.9	12.0	7.8
New auto registrations (thousands)	1,710	1,703	1,746
(percent change)	-0.7	-0.4	2.5
Total taxable sales (billions)	\$451.1	\$477.2	\$503.0
(percent change)	2.3	5.8	5.6
Consumer price index (1982-84=100)	190.6	194.2	199.4
(percent change)	2.4	1.9	2.7

General Fund Revenue

(Dollars in Millions)

	2002-03 Preliminary	2003-04 Forecast	2004-05 Forecast
Personal income tax	\$32,710	\$35,117	\$38,043
Sales and use tax	22,415	23,714	25,022
Corporation tax	6,804	7,466	7,609
All other	9,393	8,330	5,733
Total revenues and transfers	\$71,322	\$74,627	\$76,407
Annual percent change	-1.3%	4.6%	2.4%

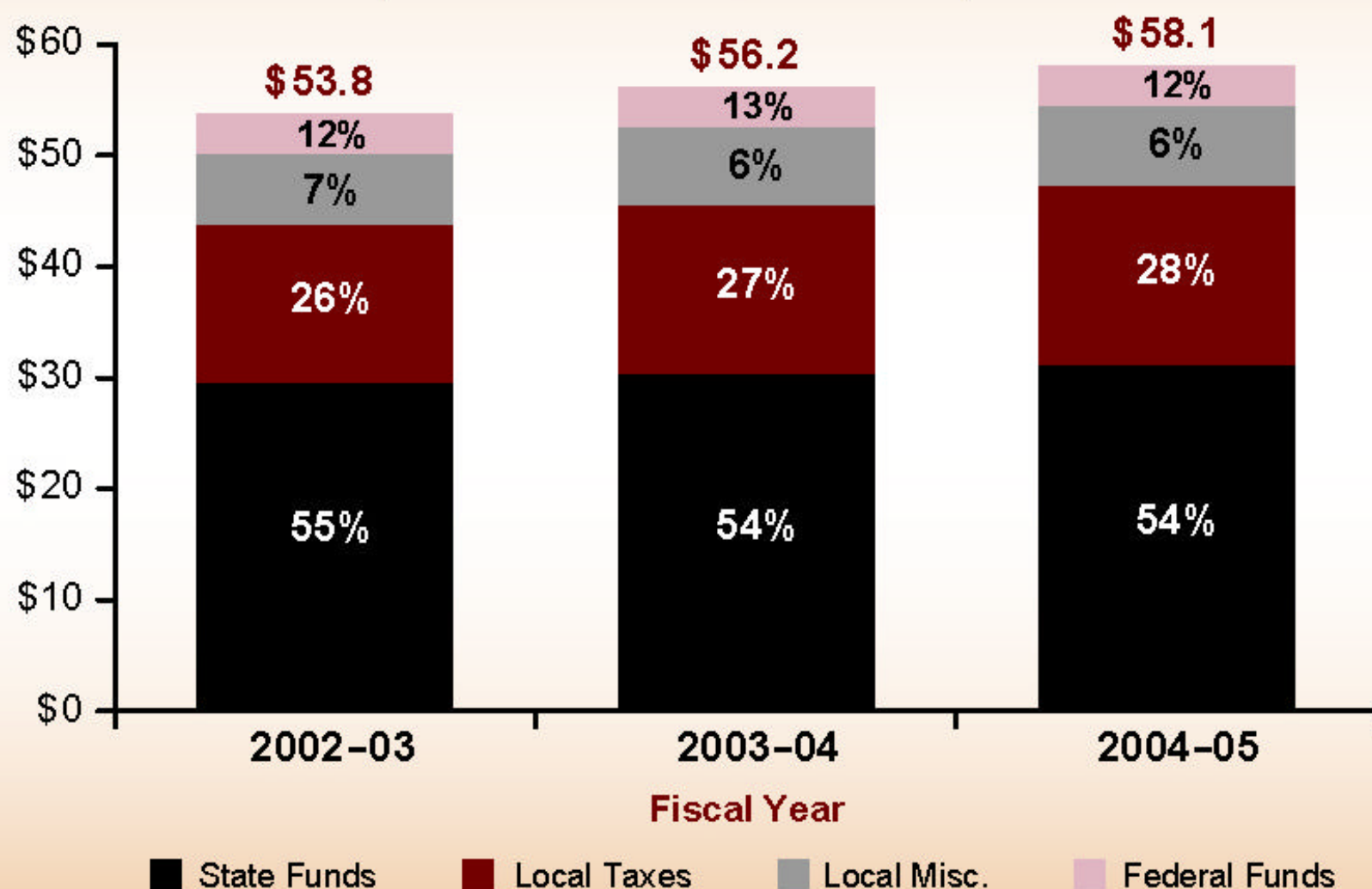
The 2002-03 total figure does not include \$9.242 billion in Economic Recovery Bond revenues.

The 2003-04 total figure does not include \$3.012 billion in Economic Recovery Bond revenues.

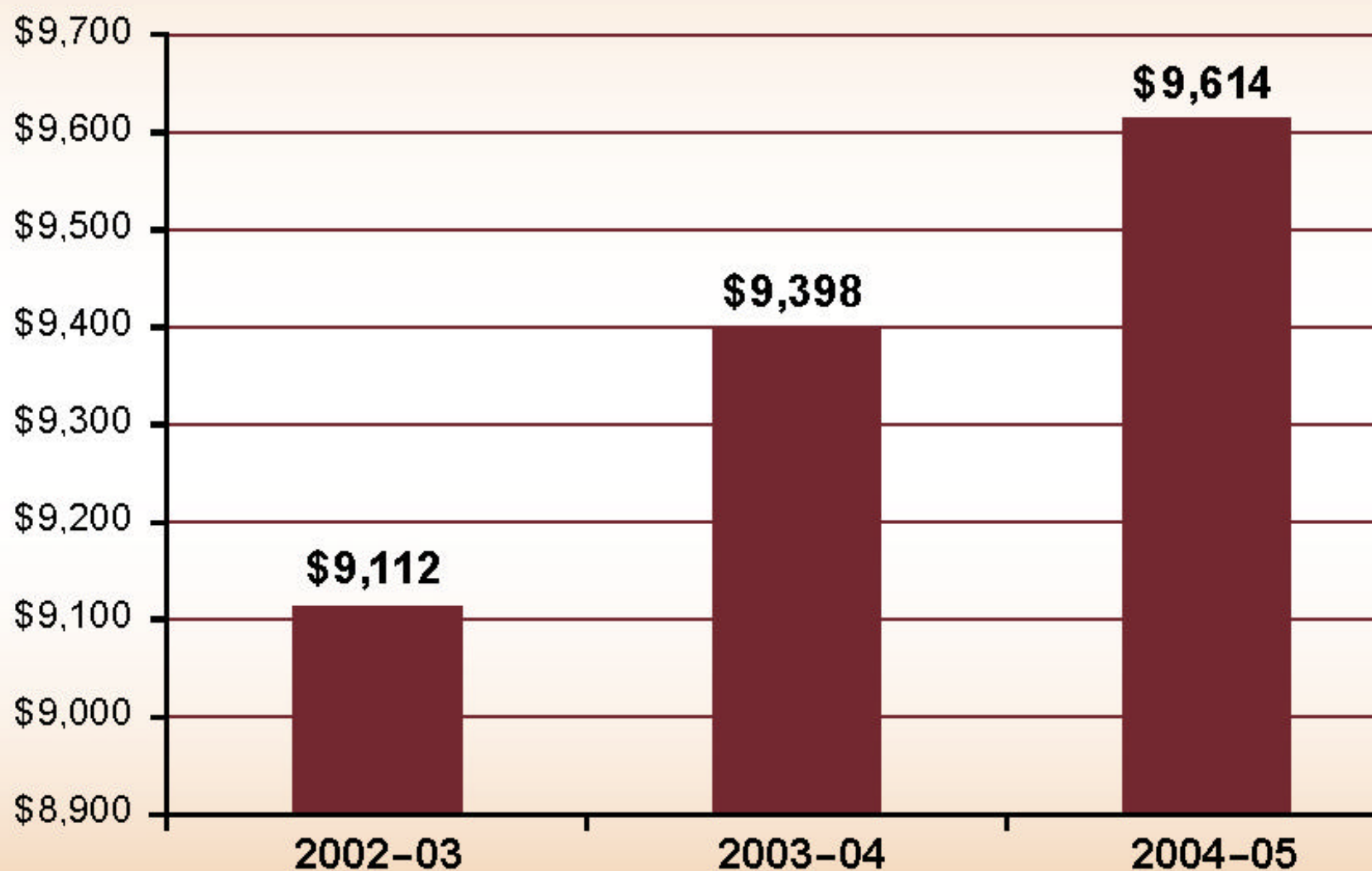
STATE OF CALIFORNIA

Revenue for California's K-12 Schools Source of Revenues

(Dollars in Billions, Percent of Total)



K-12 Education Spending Per Pupil



Higher Education Fees

■ 2003-04 Fee Comparison:^{a/}

	<u>UC^{c/}</u>	<u>Other Public Institutions</u>		
		<u>Average</u>	<u>Highest</u>	<u>Lowest</u>
Undergraduate	\$4,984	\$6,873	\$8,481	\$5,851
Graduate	\$5,219	\$9,133	\$12,933	\$7,756
	<u>CSU^{c/}</u>			
Undergraduate	\$2,046	\$5,272	\$7,927	\$2,830
Graduate	\$2,256	na	na	na
	<u>CCC</u>			
Full-Time Student ^{b/}	\$540	\$1,957	\$4,429	\$768

^{a/} 2004-05 fees are proposed to increase for undergraduate and graduate students by 10 and 40 percent, respectively.

^{b/} Comparison data for other states reflect 2002-03 fees.

^{c/} Fees for UC and CSU do not include campus-based fees of \$546 and \$526, respectively, because it is unknown whether similar fees are included in the comparable institution figures.

■ Both UC and CSU acknowledge that graduate level instruction costs are at least 50 percent higher than the costs of undergraduate instruction.

■ 2003-04 Professional School Fee Comparison:

	<u>UC</u>	<u>Other Public/Private Institutions</u>		
		<u>Average</u>	<u>Highest</u>	<u>Lowest</u>
Law	\$16,833	\$26,413	\$33,690	\$12,849
Medicine	\$15,657	\$27,959	\$35,450	\$17,949
Business Adm.	\$15,569	\$28,378	\$39,288	\$8,159

■ Percent of Instruction Paid by Students:

UC	29.3%	CSU	20.1%	CCC	11.3%
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Higher Education Expenditures General Fund, Lottery Funds, State School Fund, Local Revenues and Student Fees

(Dollars in Millions)

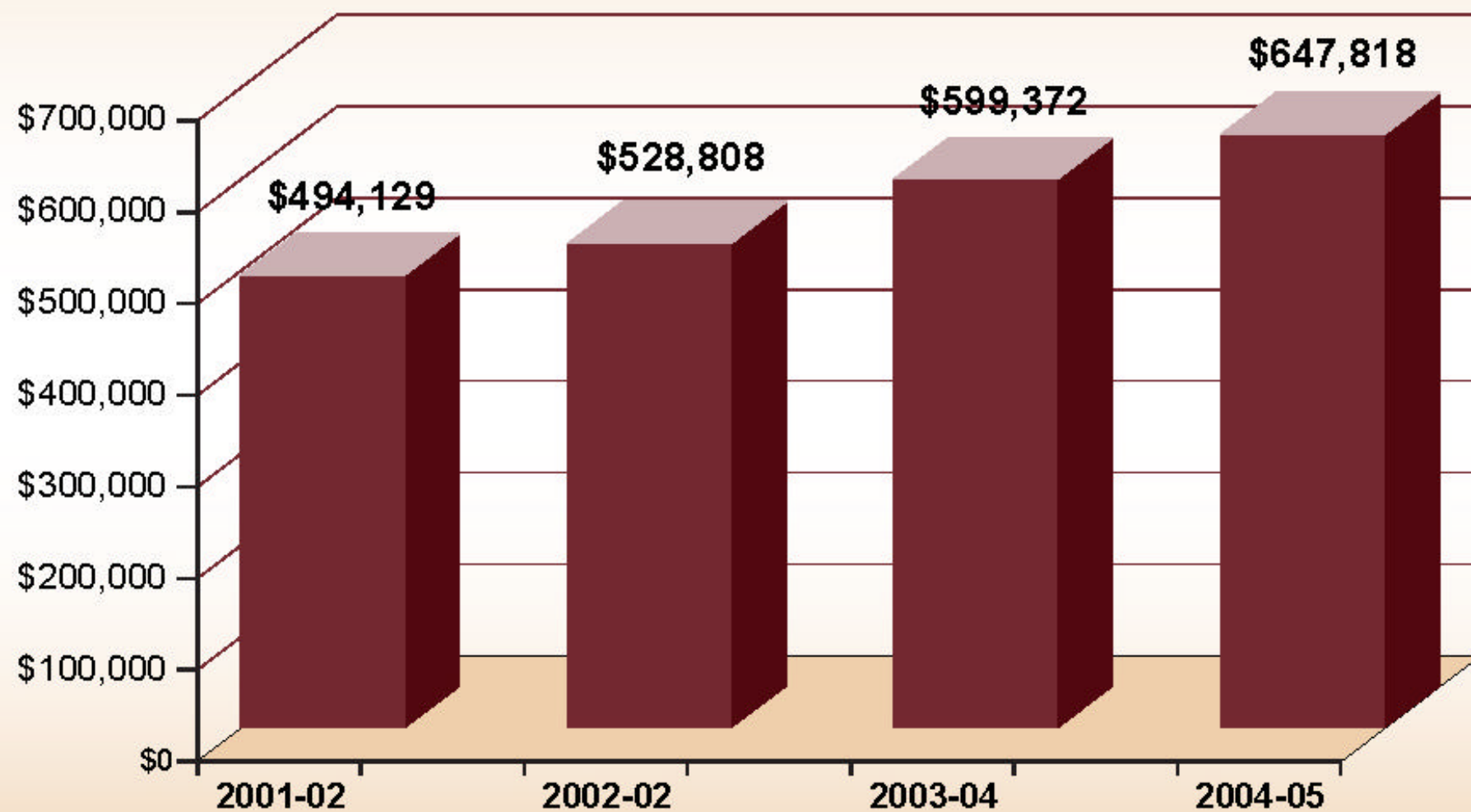
	<u>2003-04</u>	<u>2004-05</u>	<u>One-Year Change Amount</u>	<u>Percent</u>
University of California ^{1/}				
Total Funds	\$4,519.5	\$4,505.7	-\$13.8	-0.3%
General Fund	2,868.2	2,670.5	-197.7	-6.9%
California State University ^{1/}				
Total Funds	3,677.2	3,587.9	-\$89.3	-2.4%
General Fund	2,622.5	2,409.6	-212.9	-8.1%
Community Colleges				
Total Funds	6,360.9	6,866.9	\$506.0	8.0%
General Fund & P98 ^{3/}	4,485.4	4,900.6	\$415.2	9.3%
Student Aid Commission (GF)	630.2	684.0	\$53.8	8.5%
Other Higher Education ^{2/}				
Total Funds	211.6	318.9	\$107.3	50.7%
General Fund	<u>191.9</u>	<u>293.6</u>	<u>101.7</u>	<u>53.0%</u>
Total Funds	\$15,399.4	\$15,963.4	\$564.0	3.7%
General Fund	\$10,798.2	\$10,958.3	\$160.1	1.5%

^{1/} For purposes of this table, expenditures for the UC and CSU have been adjusted to include the offsetting general purpose income. This provides consistency in comparing magnitudes and growth among the various segments of education.

^{2/} The Other Higher Education amount includes Hastings College of the Law (HCL), the California Postsecondary Education Commission, and General Obligation Bond Interest and Redemptions for UC, CSU and HCL.

^{3/} For purposes of comparing with UC and CSU General Fund, CCC includes property tax revenue as a component of the state's obligation under Proposition 98.

Cal Grant Funding (Dollars in Thousands)



Medi-Cal Reform

This proposal would provide resources to the DHS to seek a Medicaid Demonstration Waiver to redesign the Medi-Cal program.

The key components of this proposal may include:

- **Simplification**—The State may simplify Medi-Cal eligibility by aligning Medi-Cal's eligibility standards and processes with those of CalWORKs and the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program. Income standards and property tests could be aligned with CalWORKs for children and families, and with SSI/SSP for the aged, blind, and disabled.

- **Multi-Tiered Benefit/Premium Structure**—The State may offer different benefit packages, and could require different premium amounts, for the various mandatory and optional populations within Medi-Cal. States are required to continue to provide the benefit package specified in their Medicaid State Plan to federally mandatory populations (children, disabled, and certain long-term care beneficiaries). However, states have additional flexibility under federal law (the Health Insurance Flexibility Initiative) to modify their current benefit packages for optional Medicaid populations. With a federal waiver, California could structure a tiered benefit program that provides comprehensive benefits to the mandatory populations and basic benefits to optional eligibles, with more comprehensive benefits available to those willing to pay premiums.

- **Co-Payments**—The State may require co-payments from Medi-Cal beneficiaries for various services, deduct the co-payment amount from the provider reimbursement amounts, and give providers legal authority to require the co-payment as a condition of providing non-emergency care.

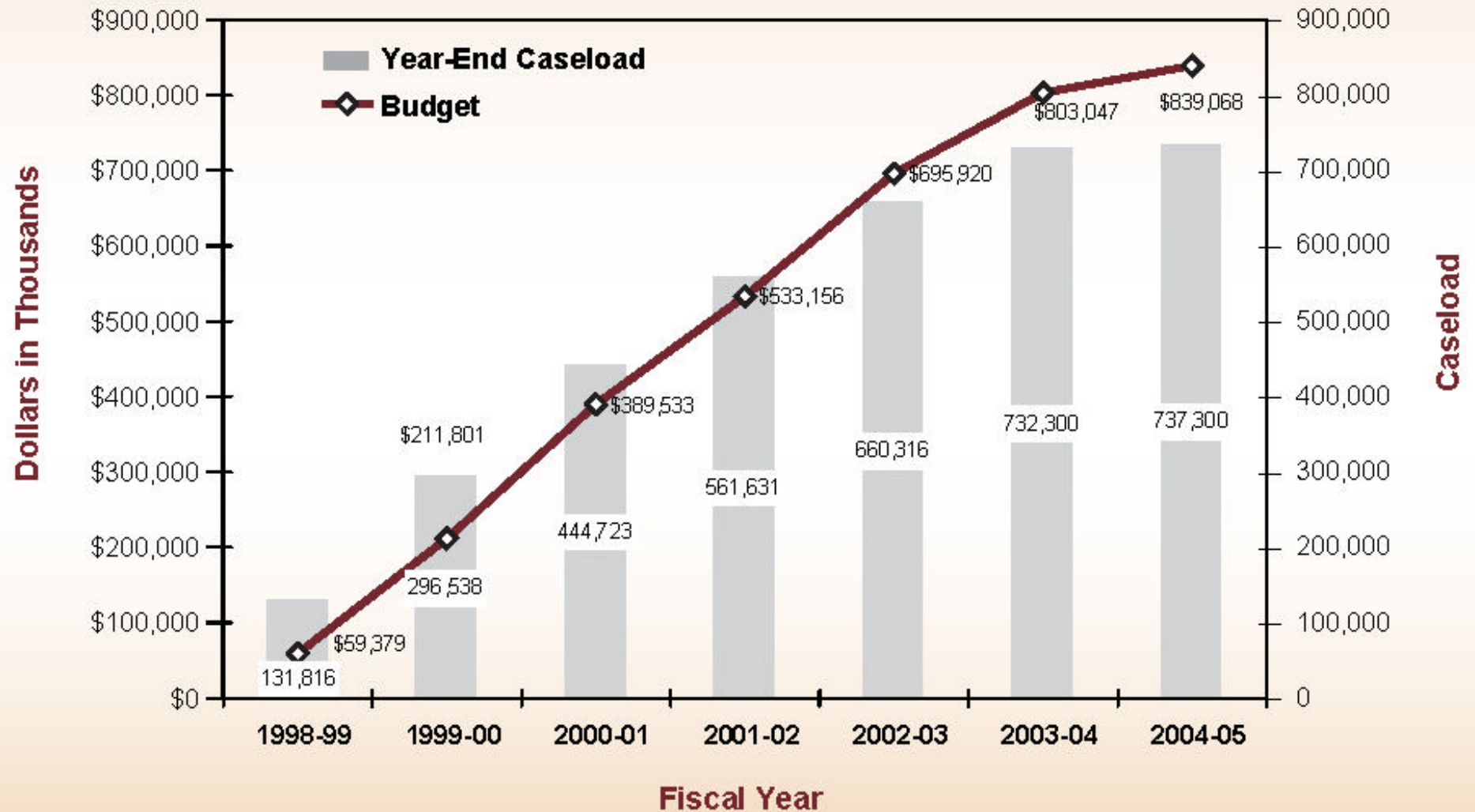
- **Conform Benefits to Private Plans**—The State may conform the basic Medi-Cal optional benefit package to that of private health plans. Other states, such as Oregon, offer selected optional benefits to all eligibility categories. A basic benefit package could include inpatient and outpatient services, physician services, laboratory and x-ray services, ambulance, prescription drugs, durable medical equipment, dental, and certain mental health services, but exclude other comprehensive benefits such as chiropractic and acupuncture services.

- **Managed Care Reform**—The State may expand managed care into additional counties, review and reform managed care reimbursement policy to ensure access and appropriate utilization, and encourage enrollment of the Aged, Blind, and Disabled into managed care. This proposal may not generate any budget year savings due to the lengthy process of reforming the managed care delivery system and securing State and federal approvals. Implementation would begin in 2005-06, using a phased-in approach.

Medi-Cal Anti-Fraud and Audit Efforts

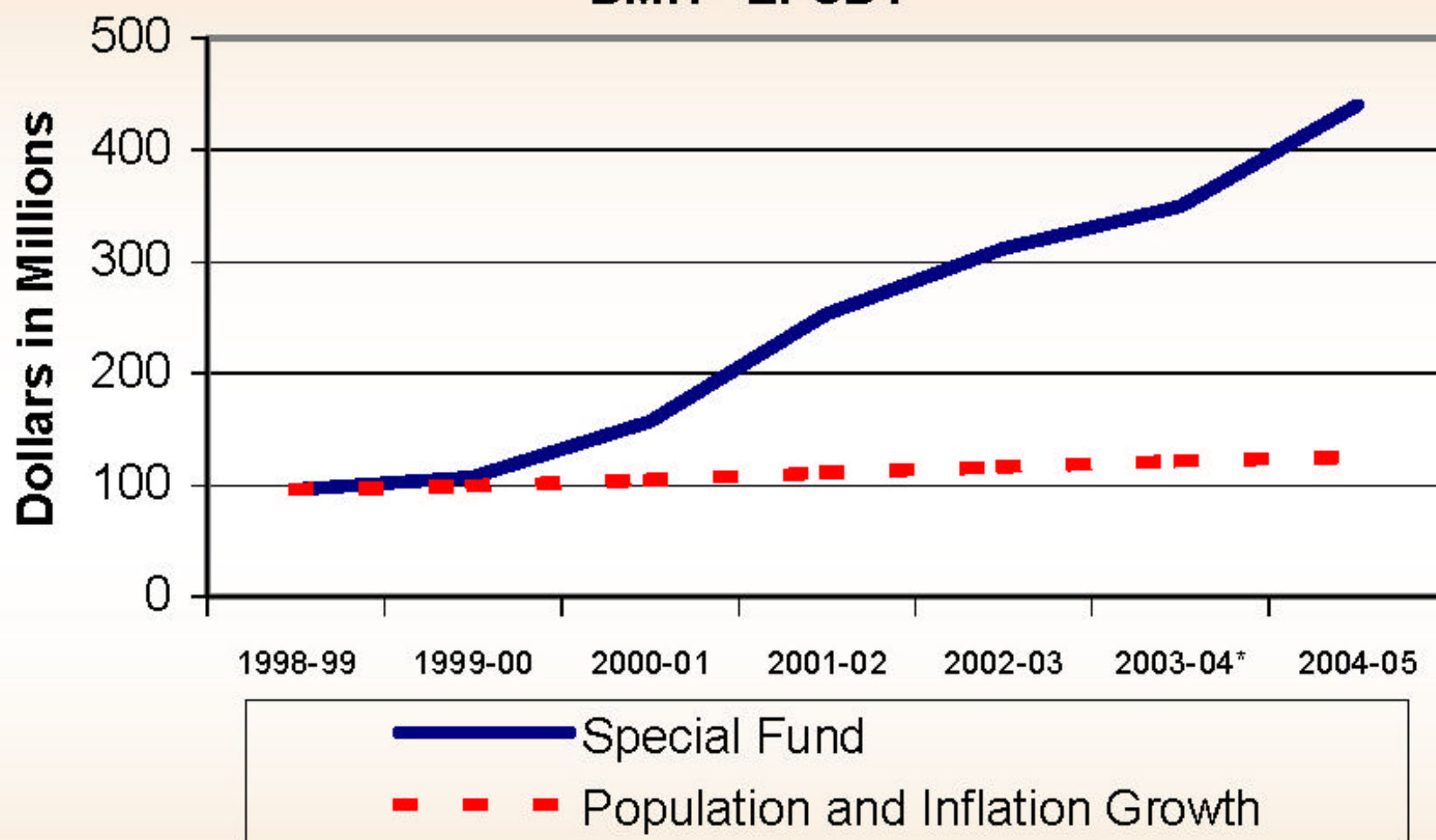
The DHS anti-fraud efforts benefit Medi-Cal by generating either program savings or cost avoidance. Savings are achieved when actively fraudulent providers are identified, and claims are no longer paid or overpayments are recovered. Cost avoidance results when fraudulent providers are prevented from initial enrollment in Medi-Cal, avoiding fraudulent charges before they occur. Anti-fraud efforts implemented since 2000-01 have resulted in savings of \$371 million General Fund and cost avoidances of \$352 million General Fund.

Managed Risk Medical Insurance Board Healthy Families Program

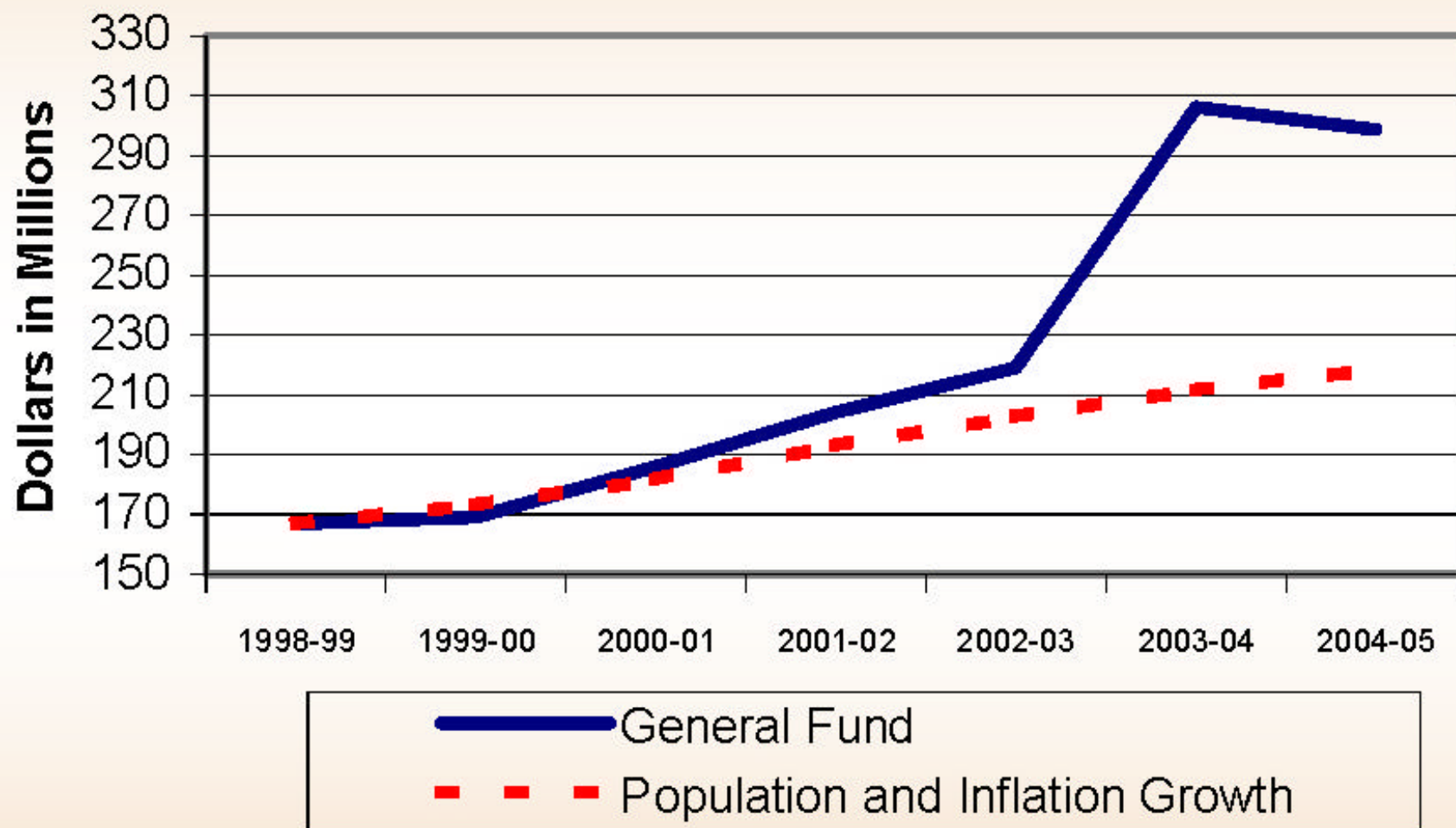


STATE OF CALIFORNIA

DMH - EPSDT



DMH - Community Mental Health



DDS - Regional Centers

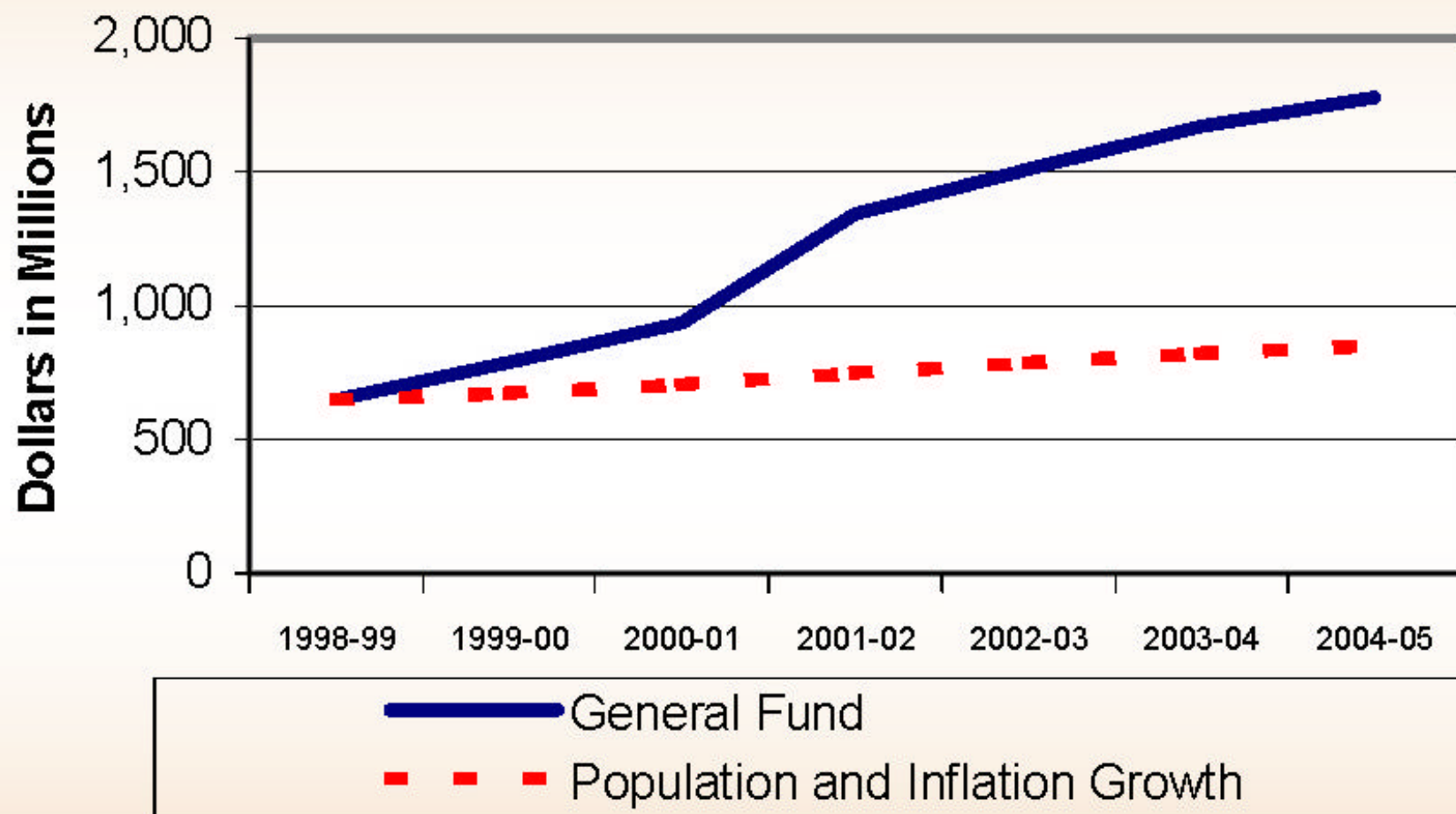
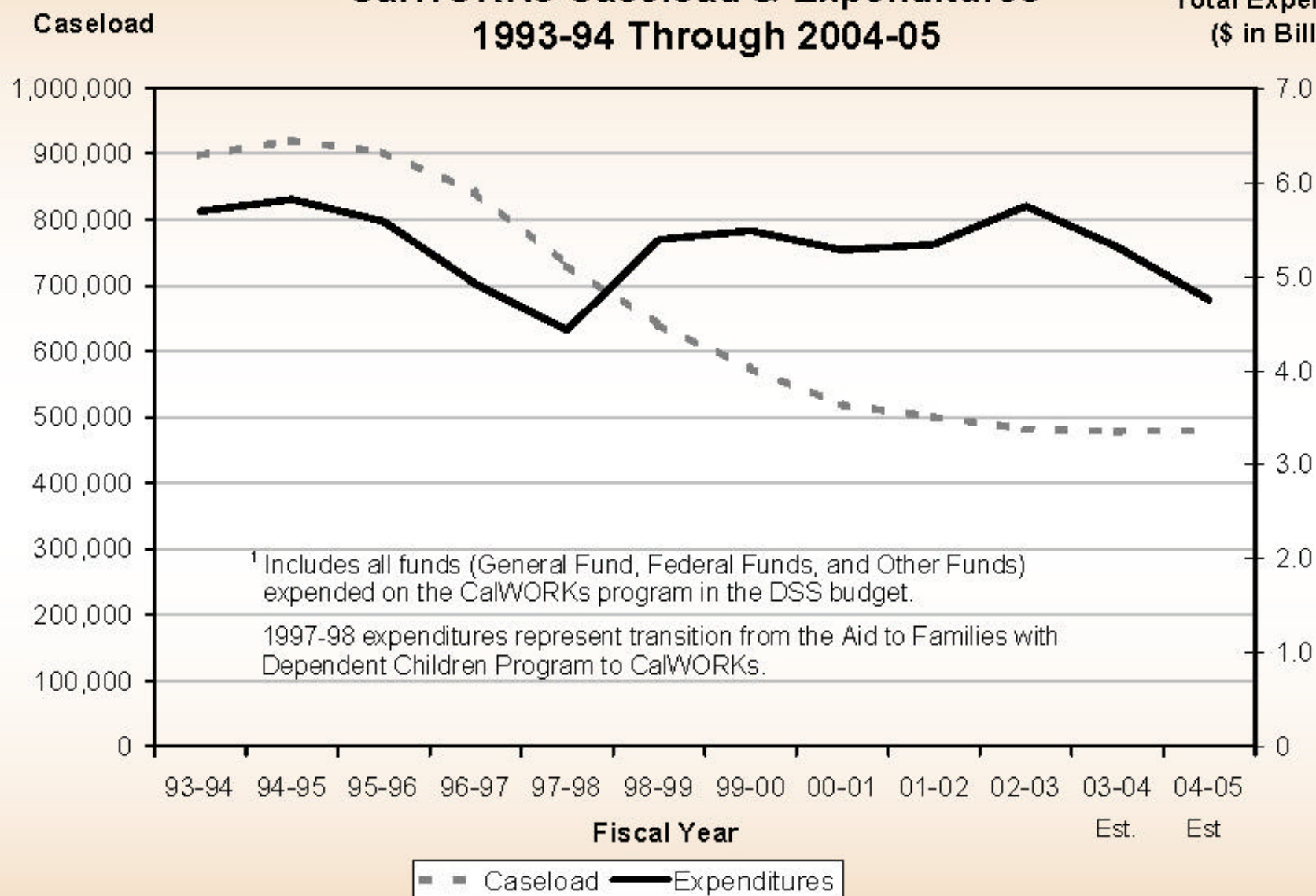


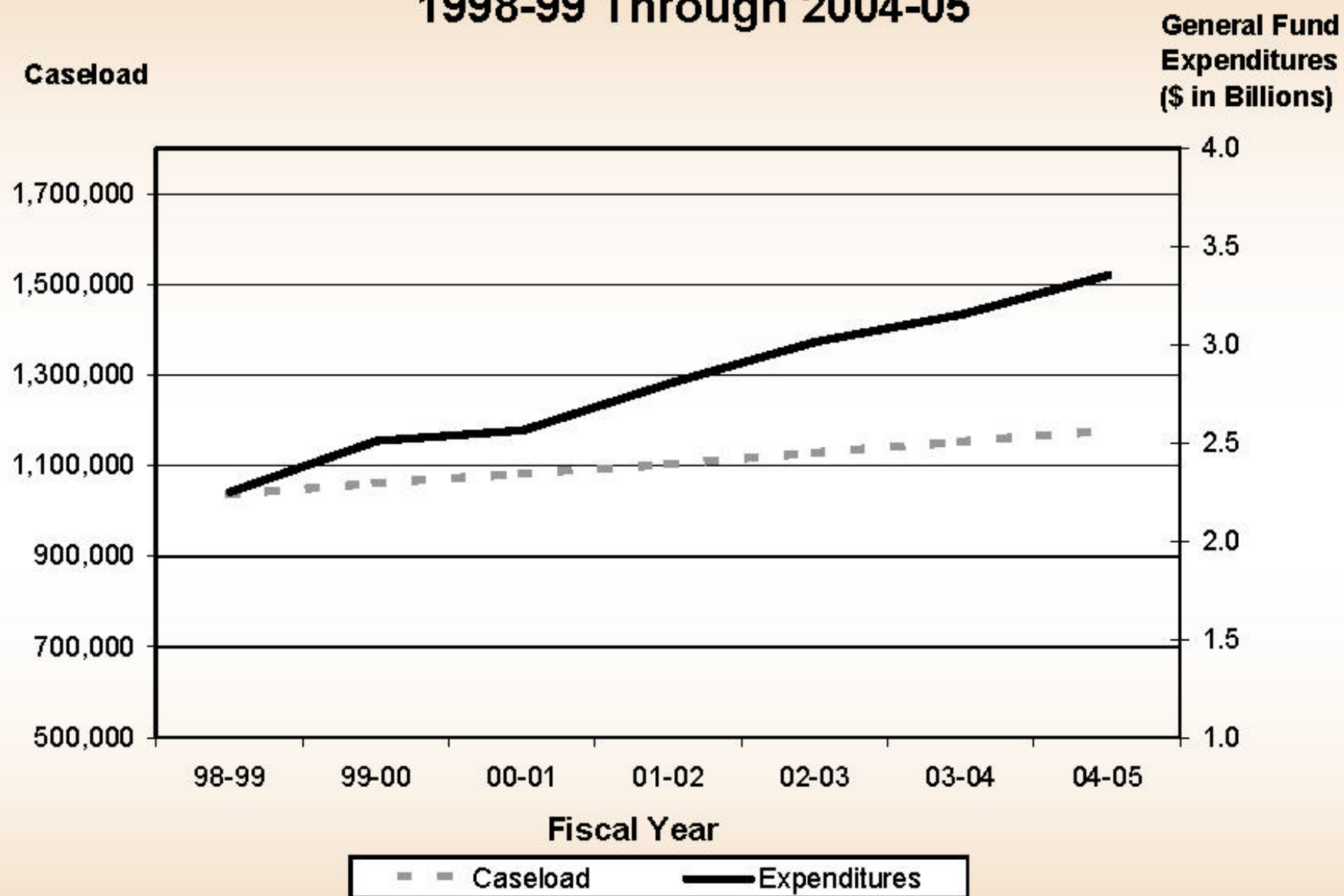
Figure HHS-16

CalWORKs Caseload & Expenditures¹ 1993-94 Through 2004-05

Total Expenditures
(\$ in Billions)

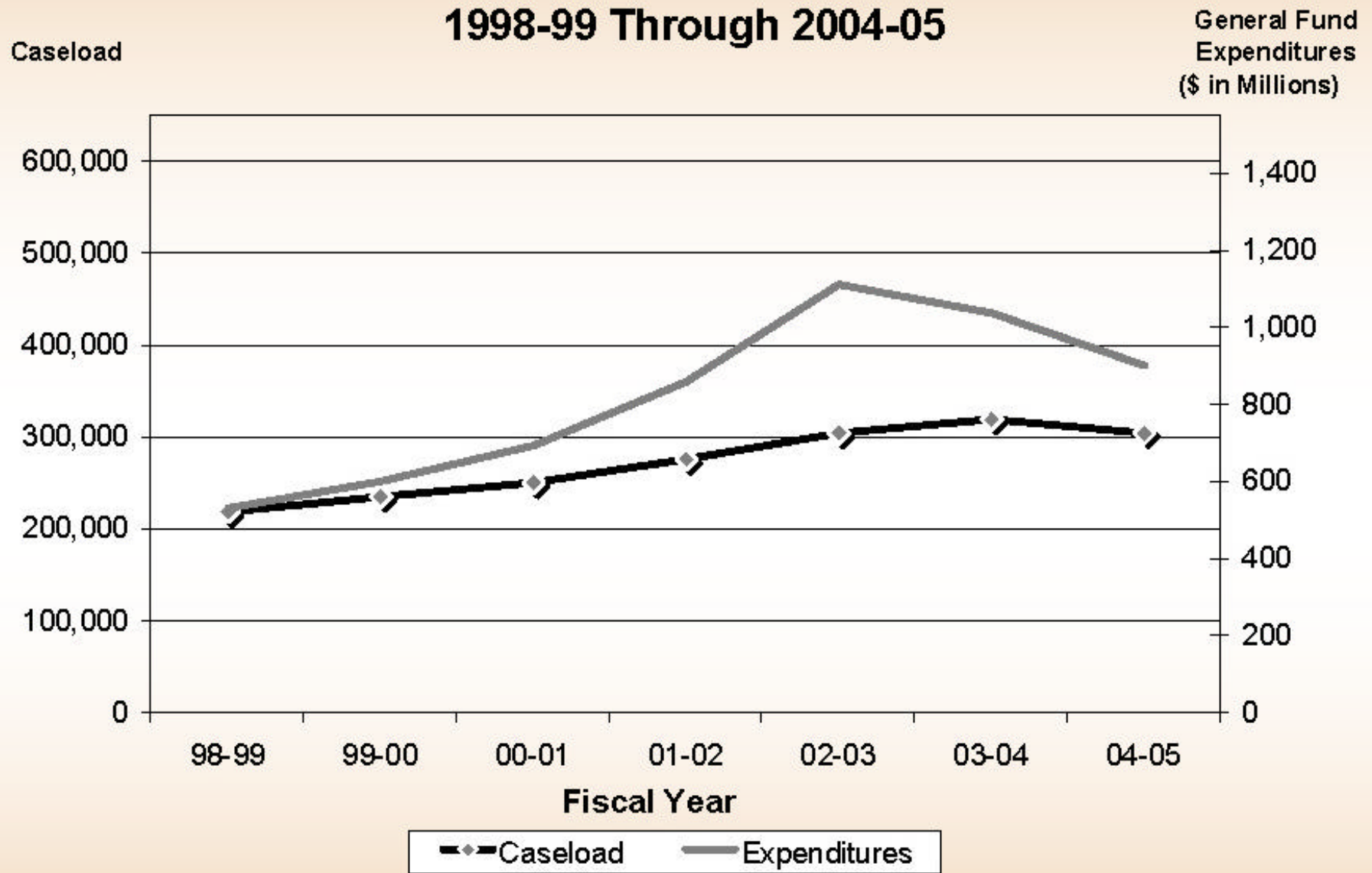


SSI/SSP Caseload & Expenditures 1998-99 Through 2004-05

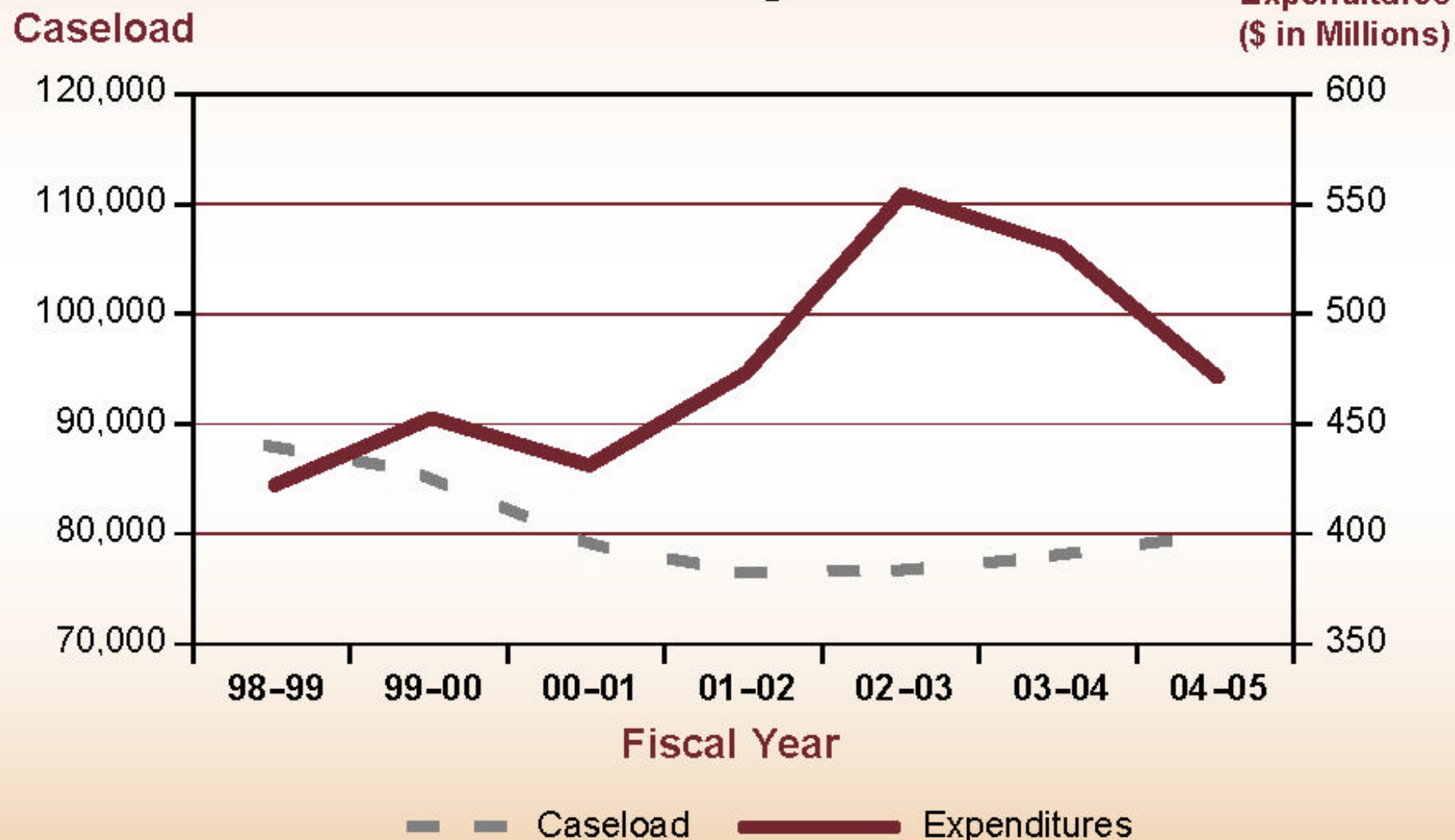


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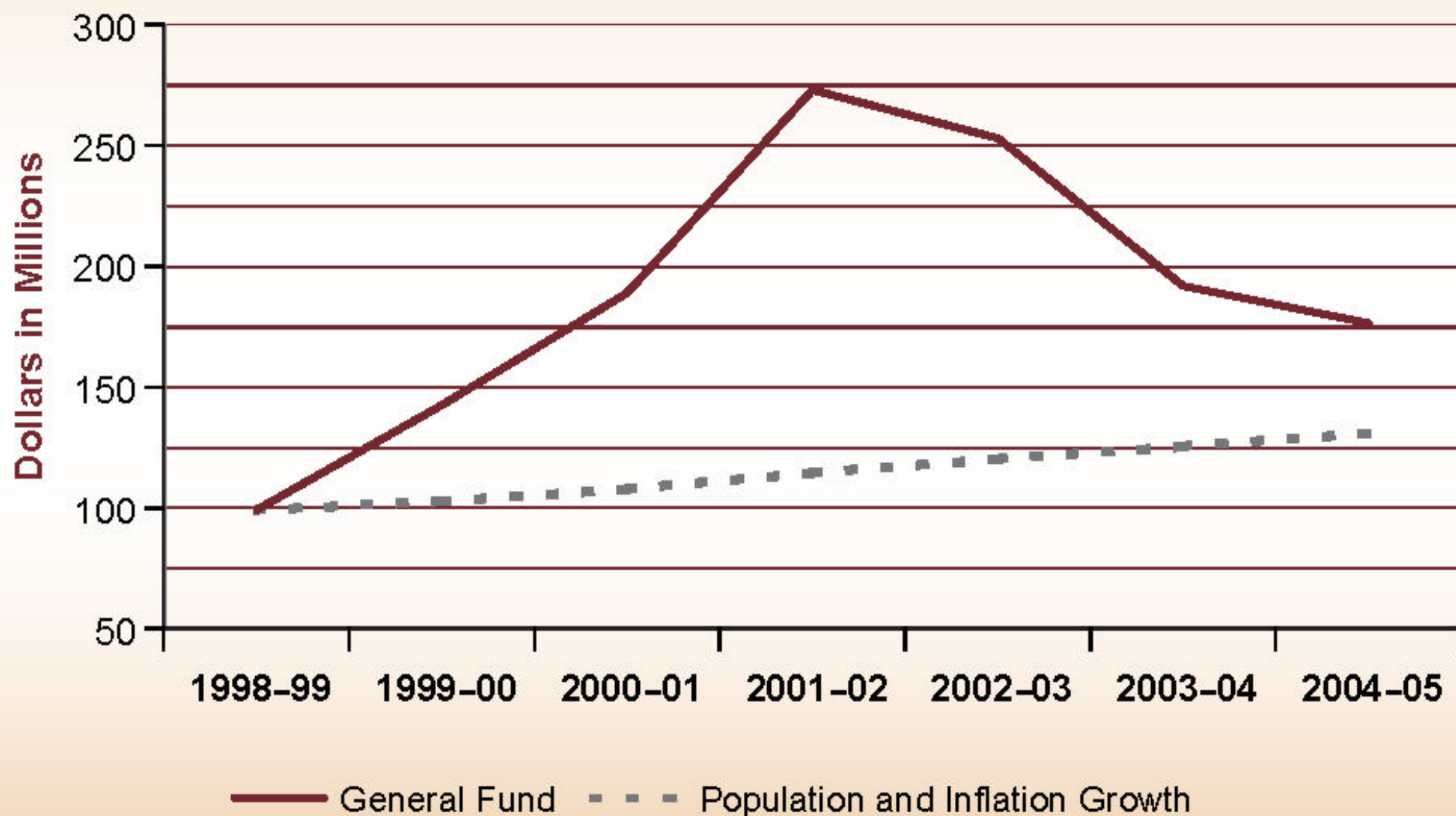
IHSS Caseload & Expenditures 1998-99 Through 2004-05



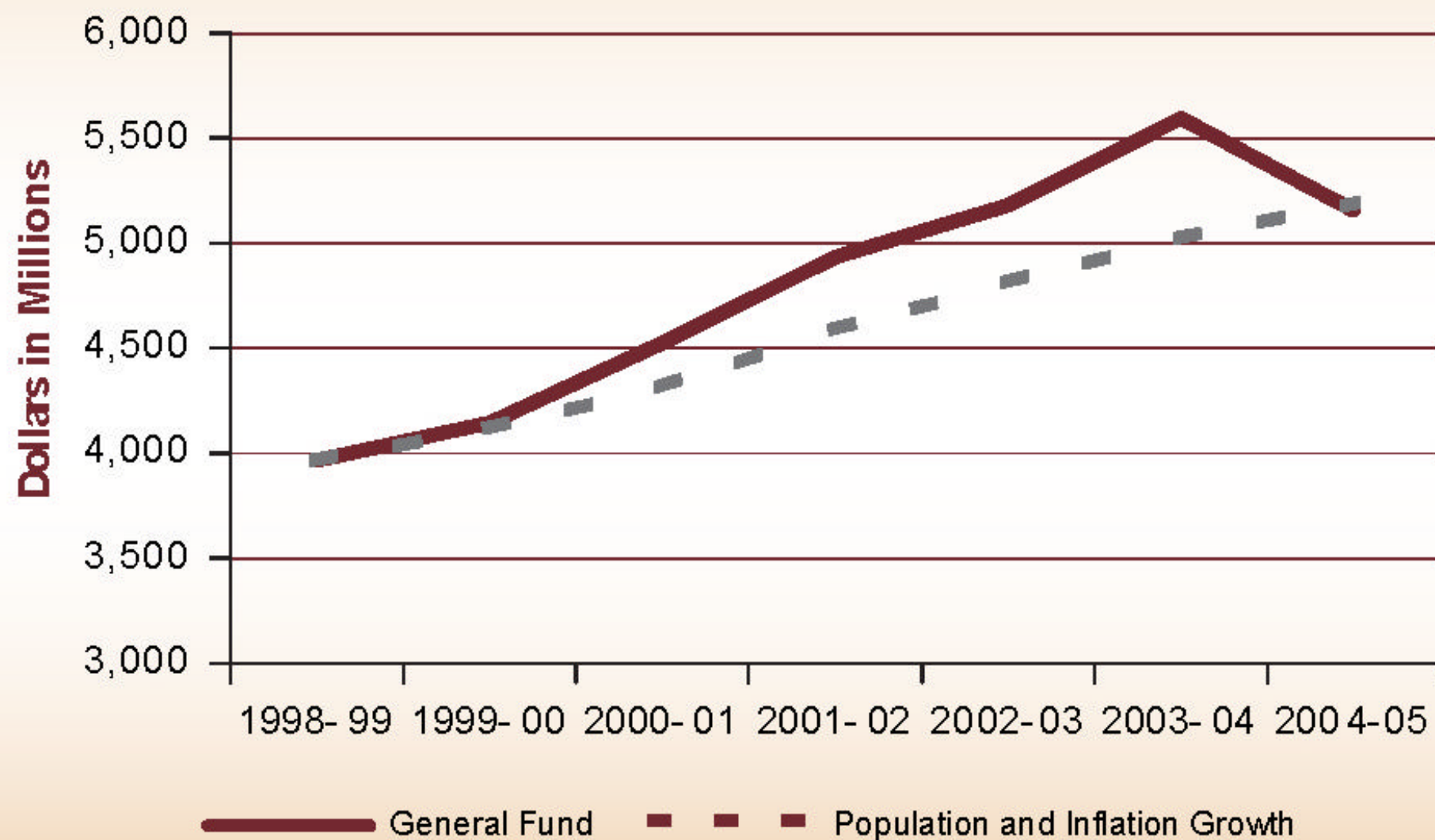
Foster Care Caseload & Expenditures 1998-99 Through 2004-5



Programs for Immigrants



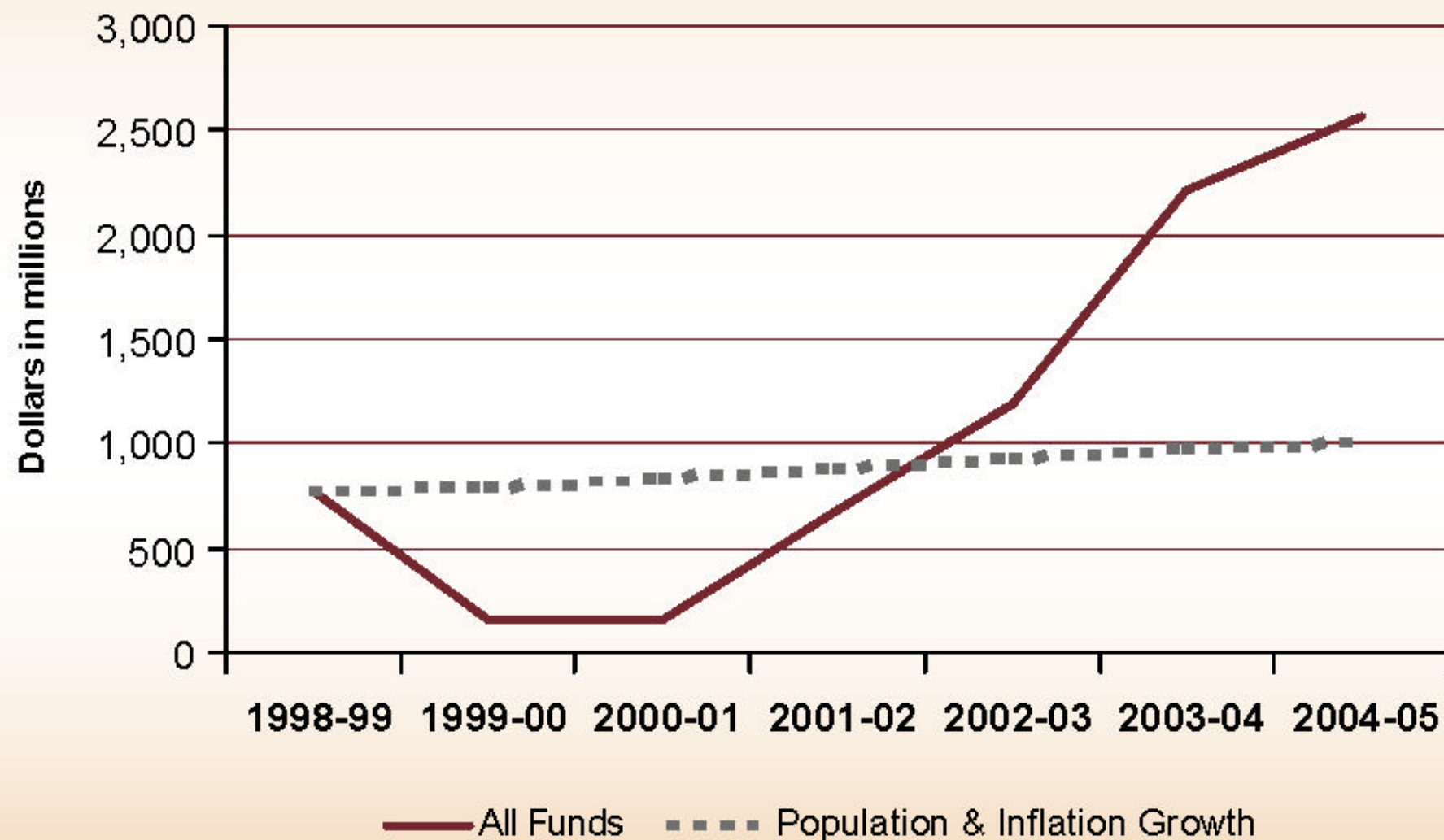
Department of Corrections



Key Audit Findings — Department of Transportation

- From 1998-99 to the 2003 Budget Act, total funding for Caltrans has increased from \$5.1 billion to \$7.2 billion, an increase of \$2.1 billion, or approximately 42 percent.
- Caltrans' budget expenditures have generally exceeded population and inflation growth over the audit period with larger gaps in 2001-02 and 2003-04.
- In 2001-02, a one-time \$2 billion transfer was received from the General Fund. This transfer was related to the inception of the Traffic Congestion Relief Program (TCRP). The TCRP, however, has ongoing costs that can no longer be sustained. TCRP projects were selected outside of normal transportation planning processes.

State Retirement Contributions





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2004-05

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